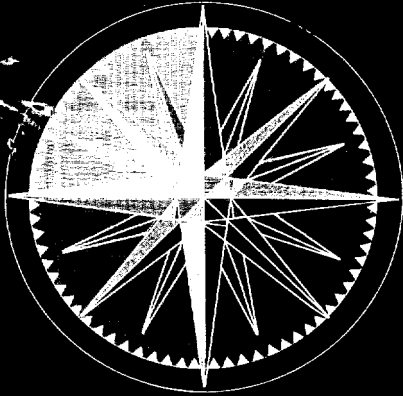


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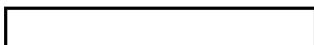


SPECIAL REPORT

PORTUGUESE ECONOMIC OUTLOOK AND ITS POLITICAL IMPLICATIONS

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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PORTUGUESE ECONOMIC OUTLOOK AND ITS POLITICAL IMPLICATIONS

Portugal's economy is in much better shape than many observers were predicting when the revolt in Angola broke out three years ago. Its continued growth despite the strains imposed by increasing defense expenditures has helped prevent any real threat to Prime Minister Salazar's authoritarian regime. Serious problems are in prospect, however, when the military budget begins to drain off funds needed to sustain economic development projects and Salazar starts to lose the support of vested business interests. The delusion that time is on Portugal's side in Africa has blinded the regime to the strength of African nationalism. Lisbon may lose even minimum influence in its overseas territories after they become independent unless genuine reforms are quickly implemented.

Economic Performance

Perhaps the most important indication of Portugal's unexpected economic strength is the regime's success in more than doubling defense expenditures since the beginning of the Angolan conflict early in 1961. This is particularly noteworthy because allocations for economic development have simultaneously increased and other government expenditures have remained close to normal levels.

Almost 44 percent of the 1963 national budget, totaling \$494.7 million, went for defense. The percentage will probably be at least as high this year although the initial 1964 budget, totaling \$517.4 million, allocated only 35 percent to military outlays. The Second Six-Year Economic Development Plan (1959-64) is to have \$70.3 million in 1964, an increase of 6.5 per-

cent over the funds allocated last year.

Government estimates, using 1962 prices, predict a 5.2-percent increase in GNP for 1963 --the same as in 1962 and only slightly below the 5.3-percent average for the period 1958-62. This rate is too low to enable Portugal, starting as it did from a low base, to catch up soon with the more industrially advanced European countries, but the ability to maintain such a steady growth has contributed to an optimistic outlook in business and official circles. The government is publicly committed to speeding up economic development, but stresses that defense requirements have priority.

The continuing strength shown in some parts of private enterprise is also an encouraging indicator. For example, deposits in Portugal's five

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major private banks in 1963 increased by an average of nearly 25 percent over 1962. The banks also extended 22 percent more credit and upped their net profits more than 14 percent. At the end of February, 1964, Portugal's gold and foreign exchange reserves stood at \$833 million, a record high.

The good performance of the Portuguese economy despite the expense of the Angolan war has been aided by the general prosperity in Angola itself--where the government has succeeded in containing the rebellion. The losses initially inflicted by guerrilla activity have been almost entirely made up. Angola has converted an unfavorable trade balance--\$6.3 million in 1959 and \$3.6 million in 1960--to a favorable one which averaged \$19.2 million for the three-year period 1961-63. A contributing factor has been the sharp, profitable rise in Angolan coffee prices which helped raise the overseas province's total foreign trade for 1963 to a record level. Moreover, the money spent in Angola by 40,000 military personnel, with higher pay than ever before, has created a boom in many of its economic sectors.

The favorable trade activity in Angola has not prevented Portugal as a whole--including all overseas territories--from registering a net balance-of-payments deficit in the last four years, ranging from \$6 million in 1960 to \$100 million in 1962 and probably about the

same for 1963. However, Angola's success has helped offset Portugal's own large trade deficit. This amounted to \$220.8 million in 1962 and \$235.5 million in 1963, due in large part to increased imports for expanding industrial production.

The government's firm military posture in Angola and its determination to carry on with economic development at home have inspired growing confidence generally in the business community. Even financial circles traditionally opposed to borrowing large sums abroad seem inclined to go along with the new economic policy.

Nevertheless, benefits accruing to the country from continued economic growth are not being felt by the population at large. Labor is becoming increasingly resentful of low pay levels, even though living costs in Portugal have also remained low when compared with those in other Western European countries. During the last two years or so, several thousand workers seeking a better living standard have emigrated clandestinely, particularly to France.

Political Situation

The Salazar regime, after nearly 32 years in power, retains firm control. It still has the backing of big business and other vested interests, and has even strengthened its public image by its resolute handling of the Angolan revolt.

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The armed forces remain loyal, despite discontent on the part of some upper-echelon officers --led by ex-President Craveiro Lopes and former Defense Minister Botelho Moniz--who would like to see political and further economic reforms at home and a more flexible policy in Africa.

Any organized opposition to Salazar's regime is illegal. The only group which could be so described, in any case, is the small, tightly knit Communist party, whose principal activity is clandestine dissemination of antiregime propaganda. The non-Communist political opposition remains fragmented and has little popular following. There is no sign of a leader with the ability, determination, and stature to unite opposition groups and force the regime to adopt reforms.

Nevertheless, these groups --as well as Salazar's opponents in apolitical intellectual and student circles--have during the past year become more outspoken in criticizing restrictions on civil liberties. The regime's successes in the Angolan war have not dissipated opposition fears that Salazar's intransigent African policy will eventually lead to Portugal's collapse. Students in particular are opposed to the war on both ideological and practical grounds, and hundreds of them are said to have left the country legally or illegally in the past two years to evade conscription.

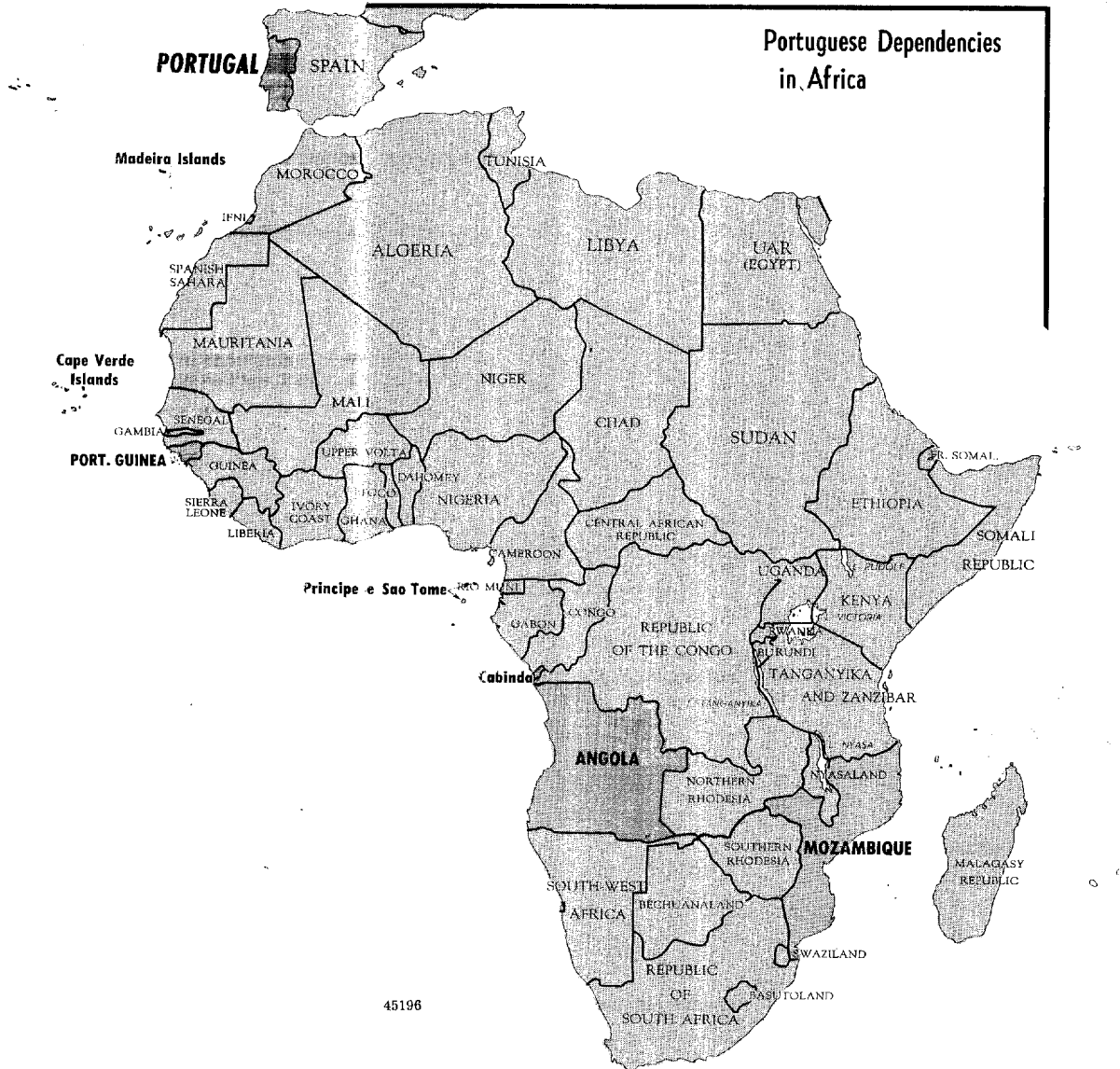


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While the regime is determined to retain control of Portugal's African territories and resist international pressure for their self-determination, the current policy is essentially a delaying action. This involves holding the line militarily and, on the political level, conceding only enough by way of reforms to give world opinion the impression that there is movement toward greater autonomy.

The Portuguese argue that they are carrying out a civilizing mission in Africa with the ultimate aim of producing an integrated multiracial state in which the overseas territories will rank equally with the metropole. Meanwhile, they insist, over-all control of territorial administration must remain in Lisbon. After a necessarily protracted period of education and apprenticeship, self-government will be practicable.

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The threat of Communist penetration in Africa and increasing unrest in some of the newly independent African countries are cited to emphasize that the Portuguese are "the only ones on whom the Africans can rely to save them from themselves."

Prime Minister Salazar and his close associates are confident other Western countries will eventually recognize the correctness of Portugal's position and change their attitude toward its overseas policy. Meanwhile, Lisbon has lessened its feeling of isolation by strengthening relations with major European powers which have at least refrained from joining the anticolonialists. In April, France got permission to set up a missile-tracking station in the Azores, and last October, an agreement between Lisbon and Bonn gave the Germans military training and logistics facilities in Portugal.

The government-controlled press gave full play to statements by visiting German

officials in 1963 that indicated a favorable attitude toward Lisbon's overseas policy.

Prospects

The outlook in Angola is for an eventual extension, rather than continued containment, of guerrilla action. In Portuguese Guinea, another territory where government forces now are hard pressed, the situation may become untenable in another year. If the African rebellion spreads next to Mozambique, the strain on Lisbon's military resources would at this point almost certainly force curtailment of expenditures for economic development, with a resultant slowdown in Portugal's economic growth.

In that event the regime would probably be confronted with rising opposition at home, not only from its traditional antagonists but also from big business. The rising dissatisfaction might then convince the military of the need to remove Salazar.

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